COMPETITION COMMISSION

NORTHERN IRELAND ELECTRICITY LIMITED PRICE DETERMINATION

Summary of report

Notified: 8 November 2013

Background

1. The Northern Ireland Authority for Utility Regulation (the Utility Regulator (UR)) issued a Price Control Determination for Northern Ireland Electricity Limited (NIE) on 23 October 2012 in respect of NIE's Licences for transmission and distribution, together with proposed draft licence modifications. NIE rejected the licence modifications, and on 30 April 2013, the UR made a reference to the Competition Commission (CC). In accordance with Article 15(1) of the Electricity (Northern Ireland) Order 1992 (Electricity Order) the reference requires the CC to consider:

    (a) whether the Price Control Conditions in each Licence operate or may be expected to operate against the public interest;

    (b) whether the continuation of each Licence operates or may be expected to operate against the public interest absent the inclusion of further conditions designed to improve the recording, reporting, monitoring and verification of information related to the Price Control Conditions and related conditions of the Licences; and

    (c) if so, whether the effects adverse to the public interest which those matters have or may be expected to have could be remedied or prevented by modifications of the Conditions of each Licence.

2. NIE is the owner of the electricity transmission network in Northern Ireland and the owner and operator of the distribution network. NIE's transmission and distribution network contains several interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to approximately 840,000 consumers (of which nearly 780,000 are domestic customers) via a number of

substations. NIE derives its revenue principally through use of distribution system charges levied on electricity suppliers; and transmission services charges levied on the System Operator for Northern Ireland (SONI). These charges are ultimately recovered from final consumers; network charges typically make up around 20 to 25 per cent of the final consumer's electricity bill. NIE is no longer involved in the generation of electricity, nor in the purchase and supply of electricity to customers.

3. NIE was acquired by ESBNI Limited (ESBNI), a subsidiary of the Electricity Supply Board (ESB, the licensed transmission asset owner, distribution system operator and meter operator in the Republic of Ireland), in December 2010.

4. The UR has controlled charges for transmission and distribution by setting the revenues that NIE is allowed to raise during the following price control period. The price control determination sets these allowed revenues and proposes amendments to NIE's Licences to implement this. The UR also approves NIE's tariffs, but that process is not the subject of this redetermination.

5. In its final RP5 determination document, the UR set out NIE's allowed revenues for transmission and distribution, for the period 1 January 2013 to 30 September 2017. It said that the revenue was set at a level to allow the company to recover operating costs, depreciation and a reasonable return on investment. NIE told us that it had been compelled to reject the Final Determination because it would allow insufficient revenues to finance the activities which were necessary to enable it, in the short term, to provide a safe and reliable electricity transmission and distribution service to today's electricity customers, and in the longer term, to invest in the maintenance and development of the skills and assets required to provide such a service to future electricity customers.

6. We are therefore required to undertake a redetermination in accordance with the terms of reference. Our starting point is to assess whether the existing RP4 price controls operate in the public interest. The RP4 price control ran, originally, from 1 April 2007 to 31 March 2012 (RP4). However, in 2011 the UR announced delays in the implementation of the RP5 price control, and it sought to extend the RP4 price control.

7. In making our redetermination of whether any particular matter operates against the public interest, we are required by Article 15(7) of the Electricity Order to have regard to the duties imposed on the UR. The public interest scheme in its entirety as set out in the Energy (Northern Ireland) Order 2003 (the Energy Order), the Electricity Order and Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 (the EU Electricity Directive) is extensive. It provides, in addition to the principal objective of protecting the interests of consumers (where this includes both current and future consumers including business as well as domestic users), for a detailed set of more specific objectives and further considerations to which the CC must have regard. These objectives include the need to secure that all reasonable demands for electricity are met, that licence holders are able to finance their activities, and the need to protect the interests of vulnerable customer groups.

8. At least some of these additional objectives and considerations may, properly understood and in terms of their substance, be part and parcel of an overall objective to further the interests of consumers. We have balanced and attached appropriate weight to specific public interest factors where the particular facts and evidence before us have given us reason to do so. In addition, we take account of other factors where relevant to the particular issue, which will include (among other considerations) the Northern Ireland Government's aspiration to have 40 per cent of electricity generated from renewable sources by 2020.

9. The approach we have adopted is to consider for each aspect of the price control conditions whether it operates against the public interest and, if so, which is the best alternative available (if any) that will address the adverse effect, and best serve the public interest. This includes the determination of appropriate allowances and any consequent adjustments arising from redesign of the price control. We then consider whether the overall effect of our proposals operates in the public interest or whether any aspects or the overall package should be modified.

10. For our redetermination, we have used the best data available to us, which meant that in some cases we used data that had been updated since the UR reached its determination. We also engaged consultant engineers, BPI, to advise us on NIE’s capex proposals, and a consultancy, Pelicam Project Assurance, to help us investigate issues relating to the Enduring Solution project and non-network capex.

The existing price control conditions and the public interest

11. In relation to the existing RP4 price controls, both the UR and NIE in their respective submissions to us said that there was agreement that the existing RP4 price control conditions were now against the public interest, principally on the basis that they were only intended to operate until 31 March 2012. The UR told us that the RP4 price control was not a good one, that continuation of the adapted RP4 approach under its ‘pragmatic approach’ was an interim solution without adequate legal certainty, and that continuation would not promote efficiency and economy on the part of NIE and consequently would not adequately protect the interests of consumers in respect of services provided and prices charged. NIE submitted that the existing price control conditions could no longer function effectively at all, and it argued that the interests of consumers required that a fresh assessment was made of the regulatory mechanisms and other tools that formed the basis of the price control going forward.

12. We provisionally determined that the Price Control Conditions in each Licence operate, or may be expected to operate, against the public interest for the following reasons:

(a) Application of the current price control conditions generates uncertainty:

- The UR and NIE are in disagreement over whether the Price Control Conditions continue to have legal effect. We think that the lack of formal definitions and specifications of important aspects of the price control algebra for the period from 1 April 2012 is not compatible with good administrative practice and may lead to further disputes between NIE and the UR in the future unless licence modifications are made. NIE, its investors, its customers and other stakeholders including the UR face considerable uncertainty over what price controls currently apply, how NIE should conduct itself, and what price controls will apply in the near future. NIE cannot plan or invest appropriately and further disputes could increase costs.

(b) Aspects of the price control design are not sufficient to protect the interests of consumers:

- The calculation of NIE's maximum regulated revenue according to the level of capital expenditure that NIE incurs may expose consumers to excessively high charges that reflect capital expenditure that was inefficiently or unnecessarily incurred by NIE—or missed opportunities for efficiency and innovation in relation to network investment. We have provisionally determined that the public interest is better served by systems which, compared with cost pass-through, better incentivize NIE to enhance the efficiency of its capital expenditure.
- Cost pass-through for capex could also operate against the public interest because it may expose customers to unnecessarily high charges, arising from the possibility for NIE's sister company, NIE Powerteam, to charge inappropriately high charges to NIE for the work it carries on NIE's network.

- Where the incentive rates for outperformance differ between operating expenditure (opex) and capital expenditure (capex), this can create distortions in how NIE would organize its activities. In particular, under the RP4 price controls, the separate allowance schemes in relation to opex and capex provide NIE with unduly strong financial incentives to adopt working practices that favour capex-intensive practices over opex but which may not be efficient. In addition, the interaction of the opex and capex arrangements may lead to excessively high charges on consumers if NIE changes its working practices or accounting practices over time so as to reclassify opex as capex, even where its activities remain essentially unchanged. Changes in capitalization practices could lead to activities notionally funded through an opex allowance also being funded through capex.
- We consider that a benchmarking approach (ie setting opex allowances with reference to the costs of efficient comparators) provides a stronger incentive to operate efficiently than the incentives on opex efficiency under the RP4 controls. We have also identified that opex allowances should be adjusted for efficient indirect costs. In consequence, we have applied the benchmarking and indirect adjustment approach to allowances to opex allowances and other associated items, including revision of pension arrangements. Our provisional determination is that the current arrangements are against the public interest when this superior alternative is available.
- New capex allowances need to be set. Also, specific opex allowances need to be set for new, additional functions and items of opex that NIE has to be able to finance to achieve necessary functions.
- Additionally, the calculation of NIE's maximum regulated revenue according to the level of 'uncontrollable' operating costs that it incurs may expose consumers to excessively high charges that reflect excessive expenditure on

items treated as uncontrollable costs which NIE nonetheless has some influence over.

(c) The current price control conditions allow an excessive cost of capital:

- We provisionally determined that the current allowance for the cost of capital in the price control conditions is too high, which may expose consumers to excessively high charges.

(d) The duration of the regulatory asset base (RAB) for short-lived assets (specifically tree cutting) operates against the interest of future customers:

- We note that investments are currently added to a 40-year RAB. We provisionally determined that this operates against the public interest for significant expenditure on assets which have a much shorter life. We consider that this applies to tree cutting, because in our view it is inappropriate for future generations to be paying the costs of investments which have such a short life in relation to the period over which they are being depreciated for pricing purposes (40 years). We also consider that certain non-network capex investment (largely covering IT) should also be placed in a short-term RAB rather than expensed.

13. Our terms of reference also require us to consider whether the continuation of each Licence operates, or may be expected to operate, against the public interest absent the inclusion of further conditions designed to improve the recording, reporting, monitoring and verification of information related to the Price Control Conditions and related conditions of the Licences. We provisionally determined that the continuation of the existing Licence absent further conditions will operate against the public interest. This is because we found that the UR currently receives insufficient reliable information in order for it to regulate NIE in a fully effective manner and the more effective involvement of other stakeholders who would benefit from transparency will help improve regulatory decisions and controls.

Provisional determination on modifications of the licence conditions

14. We now set out our findings in relation to aspects of the price control and our provisional determination of modifications to the licence conditions.

15. We provisionally determined that significant changes to the design of the price control will address the effects adverse to the public interest. Our provisional determination, while still an example of RAB-based incentive regulation, also differs substantially in several respects from the arrangements proposed by the UR in its RP5 determination document.

16. We have provisionally determined that there should be separate revenue controls for transmission and distribution, in line with the separate Licences.

17. We propose a new price control for NIE calculated by reference to our assessment of NIE's expenditure requirements (if it were to operate efficiently) in the period from 1 April 2012 to 30 September 2017, with arrangements that have the effect of sharing between consumers and NIE's investors the differences between our assessment of NIE's expenditure requirements and NIE's out-turn expenditure in a 50:50 distribution for both opex and capex. Our proposed approach provides some protection to consumers against the risks that our assessment overestimates NIE's expenditure requirements. It also provides some protection to NIE against the risk that our assessment underestimates NIE's expenditure requirements. We also sought to reduce the risk that the regulatory framework gives NIE financial incentives to favour unduly working practices and capitalization practices that enhance NIE's capex relative to its opex. The cost risk-sharing mechanism will not apply to elements of the new price control subject to full cost pass-through (eg licence fees) nor to costs for connection services funded by connection charges outside the scope of NIE's revenue control.

18. We have included a provision that the UR can make adjustments to NIE's revenues or RAB to protect consumers from exposure to any costs that are demonstrably inefficient or wasteful.

19. Under conventional RAB-based incentive regulation, there is a risk that a regulated company may defer investment projects for which it has received an allowance. The approach we provisionally determined is not to prevent investment deferral, some of which may be efficient, but rather to protect consumers from adverse financial consequences in the event of investment deferral. The approach is based on an expectation that, at future price control reviews, the determination of NIE's maximum revenue and RAB by the UR could be undertaken by reference to a policy that there should be no double funding of deferred network investment. Therefore, in subsequent price controls, we would recommend that NIE be required to identify any aspects of its forecast network investment which arise as a result of deferment or abandonment of investment that was included in the calculations we have used to set a new price control for NIE. These would be netted off its expenditure allowances for the subsequent price control period. This aspect of our provisional determination is intended to protect customers from the risk of facing charges for further work which has already been funded, as a result of deferment or abandonment of projects planned for RP5. While our determination cannot bind the UR in regard to how it regulates NIE in future price controls, our intention is to create a system which allows the UR to avoid double funding of deferred investments in future.

20. We provisionally determined that there should be provisions within NIE's licence conditions to allow the UR to adjust NIE's price control and RAB to allow funding for new investment projects to increase the capacity and capabilities of the transmission network (for projects not included as part of the cost assessment we have used for our determination). NIE will be able to apply to the UR on a project-by-project basis

for an increased allowance during the price control period, without having to wait for the UR's next price control review. For work to increase the capacity and capabilities of the distribution network, we have provisionally determined not to use any special adjustment mechanisms. Instead, we propose to set an upfront allowance in relation to distribution load-related expenditure, with the same cost risk-sharing arrangements as for other areas of NIE's expenditure.

21. Our provisional determination is that a form of volume driver mechanism is appropriate for NIE's capital expenditure in relation to electricity meters. This mechanism helps address substantial uncertainty about the volumes of metering investment that NIE will need to carry out. Any potential future transition to smart meters would be dealt with either by the change of law provision in the existing licence conditions (which we propose to retain) or a licence modification.

22. NIE imposes charges for new connections to its network (also known as customer contributions). At present an element of certain connection charges is 'subsidized' through NIE's RAB and revenue control. Our provisional determination is that costs relating to this subsidy from NIE's RAB should be recovered on a cost pass-through basis, as a temporary arrangement until 1 October 2014.

23. Under RP4, certain operating costs that NIE incurs are passed through, in full, to consumers. Our provisional determination is that licence fees should be treated as a cost pass-through item. However, in contrast to the RP4 arrangements, rates and wayleaves should not be subject to cost pass-through. Instead an upfront allowance and the cost risk-sharing mechanism described above will apply.

24. We propose that there would be no upfront allowance for costs relating to injurious affection but there should be a provision for the UR to make an allowance in the

future. This would be informed by the results of a forthcoming Lands Tribunal determination.

25. We also provisionally proposed the removal from the price control conditions of various elements which we consider to be redundant following changes to the Licences under the other modifications we have provisionally determined.

26. We have not proposed any schemes in the provisional determination covering: guaranteed standards; customer interruptions; electrical losses incentives; and arrangements for tackling the illegal abstraction of electricity. We propose changes to the treatment of income that NIE receives as part of revenue protection activities, so 50 per cent of the revenues that NIE receives each year from these activities should be shared with consumers.

27. We made a provisional determination of an annual allowance for NIE's indirect costs and costs for inspection, maintenance, faults and tree cutting (IMF&T) using the results from benchmarking analysis of the costs of NIE and 14 electricity distribution network operators (DNOs) in GB. This benchmarking analysis cuts across NIE's capital expenditure and its operating expenditure. We need to separate our allowance for indirect and IMF&T costs between opex and capex. We have done this by applying an allocation based on the decomposition of NIE's historical indirect and IMF&T costs between opex and capex.

28. One of the major areas of disagreement between the UR and NIE was over the level of core network investment NIE should be allowed to undertake. We assessed NIE's project by project submissions in this area, drawing on recommendations prepared by BPI (see paragraph 10). We also gave additional review to three projects which, for a variety of reasons, stood out to us as requiring additional scrutiny. We con-

cluded that some additional provision should be made for work to ensure NIE's compliance with ESQCR requirements. We were not persuaded that a large-scale pilot to accelerate network resilience work to deal with ice accretion was well justified or demonstrably cost effective, nor was an 11 kV network performance project to install remote control facilities. We made an allowance for non-recoverable alterations, but not for a project relating to Road and Street Works legislation which is not predicted to have any impact in the relevant period. We also made an adjustment to take out indirect costs to enable us to set a direct-only core network investment allowance. Finally, we adjusted our forecast to allow for the length we now propose for the RP5 period.

29. We provided for allowances for a variety of other specific items. In the case of some items, we have provisionally determined that NIE should be recompensed on a cost pass-through basis (eg capital cost of new connections and licence fees).

30. We made a forecast of how NIE's costs may compare to expected changes in general inflation (measured by the retail prices index (RPI)) over the period. This is because NIE's allowed revenues are indexed to increases in RPI but the costs of an efficient firm might be expected to follow a different path due to the combined effects of productivity and real price effects (RPEs). We estimated productivity improvements at 1 per cent a year for each of opex and capex. We have adapted allowances accordingly.

31. We examined a variety of issues around pensions. We provisionally determined that only the pension schemes which provide services exclusively to the regulated business of NIE should be included in our revenue control. We also provisionally determined that the deficits in the included schemes should be split into historic (up to 31 March 2012) and incremental deficits. The historic deficit will be funded 100 per

cent by consumers, with the deficit recovered over a period of 15 years; any incremental deficit arising will be funded 100 per cent by NIE. Deficit repair payments should be reviewed (and changed if necessary) following each triennial valuation. We provisionally determined that NIE should be refunded its stranded pension costs from RP4 over a period of 15 years, and also that the current split of early retirement deficiency contribution (ERDC) liabilities should be retained. We also provisionally determined that no adjustment to NIE's ERDC liability should be made for previous shareholder contributions. NIE's ongoing pension service costs are included in our indirect benchmarking and therefore no additional allowance is included for this item.

32. We examined the return that NIE should be allowed to earn on the RAB. We considered that this should be set equal to the expected cost of capital for NIE as a stand-alone company. We provisionally determined that NIE's real weighted average cost of capital for RP5 is 4.1 per cent.

33. The UR asked us to investigate whether changes in NIE capitalization practices meant that, in effect, customers had paid twice for certain activities in RP4. It suggested this might have arisen because the activities had been funded both through both an opex allowance and capex allowance, when NIE had changed its accounting treatment of certain activities from opex to capex. It considered that changes in capitalization practices might have contributed to apparently high levels of opex outperformance achieved by NIE in RP4. We concluded that the design of the RP4 price control could incentivize NIE to recategorize opex as capex in this way, because opex allowances were based on historic opex levels whereas capex was remunerated on a pass-through basis. We provisionally concluded that the RP4 price control was against the public interest because this could distort NIE's choices between opex and capex and could lead to NIE receiving inappropriate opex allowances.

34. However, on examining the facts, we were not convinced that NIE had engaged in reclassification of activities in this way to a significant extent. Changes in the balance of opex and capex activities reflected a mix of causes, including genuinely additional capex activities, the replacement of reactive opex with planned programmes of capitalizable activities, and improvements in information allowing replacement of assets to be better planned and better recorded. In addition, NIE will have achieved genuine opex efficiency improvements. We noted that the opex allowance in RP4 was never explicitly allocated to particular expenditures. Instead, NIE was incentivized to outperform on an overall opex allowance. We were satisfied that reasons other than simple recategorization of opex to capex accounted for at least a substantial part of the recorded outperformance and there was not a practical method to isolate any recorded opex outperformance arising specifically from recategorization. We also thought that any intervention to correct for such effects after the period in which the regulatory design applied could be harmful to investors' perceptions of regulatory stability. We provisionally determined to make no correction to opex outperformance in RP4.

35. With regard to regulatory reporting, as noted in paragraph 13, we provisionally determined that the current arrangements (absent the inclusion of further conditions designed to improve the recording, reporting, monitoring and verification of information related to the Price Control Conditions and related conditions of the Licences) were not in the public interest. We provisionally found that a step change in data reporting would bring significant benefits to stakeholders.

36. We provisionally determined that the introduction of a reporter function was not the best way to achieve this. Instead, we provisionally determined that a licence condition should be added which required NIE to report against the Ofgem Regulatory Instructions and Guidance (RIGs—these are used for reporting by the GB

DNOs), with a mechanism added that would ensure that only those RIGs relevant and useful to stakeholders were required.

37. We provisionally determined that a new five-year RAB should be adopted for all new capitalized tree cutting undertaken from the start of the RP5 period. We have also found that investments in certain IT under the non-network capex category should similarly now be put into a five-year RAB.

Duration of the price control

38. We propose that the new price control governs the calculation of tariffs applicable from 1 October 2014. We propose that the new price control should have a planned end date of 30 September 2017. However, we have provisionally determined that the price control should have the effect of also setting NIE's maximum regulated revenue in the period between 1 April 2012 and 30 September 2014. Therefore we have set out as part of the calculation of the new price control from 1 October 2014 arrangements to provide some compensation to consumers or NIE in relation to deficiencies in the calculation of NIE's maximum regulated revenue arising from the fact that tariffs have already been set for the period between 1 April 2012 and 30 September 2014.

39. We also propose, in case of a failure to implement a new price control in time when RP5 comes to an end, a licence modifications with the effect that, in the period from 1 October 2017, the restriction on NIE's maximum regulated revenue is replaced with a restriction of no increases to the tariffs set from 1 October 2016.

Financeability

40. The regulator has a duty to secure that licence holders are able to finance their activities which are the subject of obligations imposed under statute. Based on the

preliminary modelling that we have conducted, our provisional view is that our determination is consistent with NIE maintaining an investment grade credit rating.

41. However, we recognize that NIE's interest cover ratio is a potential source of concern. In considering possible actions to address this concern, NIE has several options. These may include limiting dividends, converting any non-regulated assets into cash, the issuance of index-linked debt to reduce cash interest expenses, and raising of finance in the form of equity or equity-like instruments (ie an equity injection).

Provisional determination of allowances

42. Our provisional determination of NIE's revenue allowances for each period from April 2012 to September 2017, expressed in constant 2009 prices, is set out in Table 1. We have presented our provisional revenue allowances separately in respect of Transmission and Distribution, reflecting our provisional decision that each should be subject to separate revenue control. Our total allowed revenues over 5.5 years are £1,009 million, of which £846 million relate to distribution and £163 million to transmission.

TABLE 1 **CC provisional determination: estimated revenue allowances**

£ million (constant 2009 prices)

Start of period	*Apr 2012*	*Oct 2012*	*Jan 2013*	*Oct 2013*	*Oct 2014*	*Oct 2015*	*Oct 2016*	*Aggregate*
End of period	*Sep 2012*	*Dec 2012*	*Sep 2013*	*Sep 2014*	*Sep 2015*	*Sep 2016*	*Sep 2017*	
Our allowed revenues for transmission (2009/10)	13	6	21	28	30	31	33	163
Our allowed revenues for distribution (2009/10)	86	45	119	157	144	148	146	846
Our allowed revenues (2009/10)	99	51	140	186	174	180	180	1,009
Duration of period	6 mths	3 mths	9 mths	1 year	1 year	1 year	1 year	5.5 years

Source: CC calculations.

Implications of our findings for customers

43. We now set out our expectations as to the effect our provisional determination would have on customers. Our determination will set NIE's maximum allowed revenues for distribution and transmission use of system charges. It will not set directly the distribution and transmission tariffs that NIE charges to SONI and energy retailers, or any of the prices charged by energy retailers to customers. NIE's distribution and transmission tariffs are subject to separate approval by the UR. We have assumed that tariffs are adjusted pro rata to changes in allowed revenues.

44. We have used the UR's financial model to estimate the impact of our provisional determination on allowed revenues. We have also made allowances to deal with the effect of past under- or over-recoveries of revenue between April 2012 and September 2014.

45. The expected effect on customer tariffs is shown in Table 2. We do this in both real and nominal terms, expressed relative to RPI increases to 2013 and forecast RPI increases thereafter (actual allowed revenues will be adjusted for out-turn RPI inflation). In Table 3, we show the cumulative effect on NIE charges of actual and forecast changes.

TABLE 2 **Percentage annual increase in NIE's charges over period October 2012 to September 2017**

per cent

	Price changes already announced		*RPI forecast and implied price changes to be announced*		
Price increase at 1 October each year	*2012*	*2013*	*2014*	*2015*	*2016*
Real price change	1.7	–2.8	3.7	0.7	0.0
RPI increase (actual/latest OBR forecasts)	3.3	2.8	3.0	3.4	3.8
Nominal price increase	5.0	0	6.7	4.1	3.8

Source: CC analysis.

TABLE 3 **Cumulative percentage increase in NIE's real and nominal actual and forecast charges over period October 2012 to September 2017**

Cumulative percentage

	Actual 1 October 2012	*Actual 1 October 2013*	*Forecast 1 October 2014*	*Forecast 1 October 2015*	*Forecast 1 October 2016*
Real price change	1.7	–1.1	2.6	3.3	3.3
RPI increase	3.3	6.2	9.4	13.1	17.4
Nominal price increase	5.0	5.0	12.1	16.7	21.1

Source: CC analysis.

46. Our provisional determination will see an increase in charges from October 2014 onwards, with the size of the increase relative to RPI declining in 2015 and unchanged in 2016. The nominal price increases will depend on actual changes in the RPI. In real terms, as shown in Table 3, our determination allows a small cumulative increase in charges of 3.3 per cent relative to RPI over the whole of the RP5 period (ie from April 2012). In nominal terms, forecast RPI growth over the period means that charges are expected to increase by 21 per cent, corresponding to an increase of around 5 per cent in a typical customer's total electricity bill.

47. For a representative domestic customer the cumulative impact on charges over the whole determination period (comparing the forecast 2017 charges with those that applied in 2012) would be around £5 a year in real terms, and £32 a year in nominal terms.

48. The total allowed revenues in our determination may vary depending on whether NIE seeks, and the UR approves, allowances for additional investment projects for distribution network-load-related expenditure. Actual nominal customer charges will also vary depending on out-turn RPI figures.

49. A direct comparison of the tariff effects of our redetermination with the UR's determination, and with NIE's proposals, is complex. We consider that the most approp-

riate basis for comparison is the total allowed revenue (in real terms) standardized on the period 1 April 2012 to 30 September 2017. We estimate that our determination's aggregate allowed revenues over 5.5 years are £1,009 million, whereas the UR determination's aggregate allowed revenues over 5.5 years were £1,078 million. Therefore NIE's charges for distribution and transmission use of system are expected to be about 6.4 per cent lower under our redetermination than they might have been under the UR's RP5 determination.

Conclusions on the public interest

50. The approach we have adopted above is to consider for each aspect of the Price Control Conditions what designs will best serve the public interest and what level of cost allowances are appropriate. We also considered whether the overall effect of the modifications we have proposed can be expected to operate in the public interest when considered together, and with regard to all elements of the public interest test in the round.

51. Ultimately it is a matter of judgement to balance the various aspects of the public interest in light of the relevant evidence. As we consider that our provisional determination strikes an appropriate balance, we conclude that it will, overall, operate in the public interest.